

VZCZCXRO6464
RR RUEHIK
DE RUEHSK #0394/01 3382004
ZNR UUUUU ZZH
R 042004Z DEC 09 ZDK
FM AMEMBASSY MINSK
TO RUEHC/SECSTATE WASHDC 0575
INFO RUEHZG/NATO EU COLLECTIVE
RUCNCIS/CIS COLLECTIVE
RUEHVEN/USMISSION USOSCE 0017
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RHEHAAA/NSC WASHINGTON DC
RUEHSK/AMEMBASSY MINSK 0584

UNCLAS SECTION 01 OF 05 MINSK 000394

SIPDIS

FOR EUR/UMB (KRUPPERT)
FOR DRL (DNADEL)
FOR EUR/ACE (KSALINGER AND NKRYSTEL)
EMBASSY KYIV FOR USAID (JRIORDAN AND KMONAGHAN)

E.O. 12958: N/A

TAGS: [PGOV](#) [PREL](#) [PHUM](#) [ECON](#) [EFIN](#) [ETRD](#) [EINV](#) [BO](#)

SUBJECT: BELARUS BI-WEEKLY POL/ECON REPORT - DECEMBER 4, 2009

MINSK 00000394 001.6 OF 005

¶1. The following are brief items of interest compiled by
Embassy Minsk.

TABLE OF CONTENTS

Civil Society

- Council of Europe Official Discusses Death Penalty with GOB, A CoE Condition (para. 2)
- Santa Claus May Be Sent to Prison in Belarus (para. 3)
- Despite Differences, Opposition Parties Seek to Cooperate in Run-Up to Local Elections (para. 4)

Belarus' Foreign Relations

- Lukashenka: Defensive, But Sees Signs That U.S.-Belarus Relations Could Improve (para. 5)
- Lukashenka and Berlusconi Optimistic About Bilateral Economic Relations, But the EU Has a Different Opinion (para. 6)

Elections

- Bill Amending Electoral Code Passes First Reading, But Has Not Been Open to Public Scrutiny (para. 7)

Economy

- Russia, Belarus and Kazakhstan Signed Customs Agreements But Barrier-Free Trade is Long Way off (para. 8)
- IMF's Staff-Level Agreement on Third Review Comes Amid Unresolved Concerns (para. 9)
- GOB Optimistic About Economy Prospects in 2010, but at Odds with IMF's Projections (para. 10)
- WB approves \$200-million Development Policy Loan for Belarus, but the EU's \$300M is Now the Focus (para. 11)
- Seven Businesses Scheduled for Privatization, but Bill is Not Yet Ready (para. 12)
- Medvedev: 2010 Natural Gas Price for Belarus to Comply With Current Contract (para. 13)
- Access to Government-Subsidized Housing Becomes More Difficult, but the List is Long (para. 14)
- Tax Ministry: Belarusians Pay Flat-Rate Taxes, but Revenues Stay the Same (para. 15)

Civil Society

12. Council of Europe Official Discusses Death Penalty with GOB,
A CoE Condition

According to press reports, Jean-Louis Laurens, the Council of Europe's Director General for democracy and political affairs visited Minsk on December 1 for talks aimed at promoting agreement on the abolition, or moratorium, of the death penalty in Belarus. To regain its special observer status in the CoE, the GOB will have to demonstrate political will on this issue, he said. Laurens added that a decision could be taken directly by the GOB to abolish capital punishment without requiring a national referendum. Lukashenko has pledged that an "information campaign" with parliamentary hearings and media coverage would be held in Belarus to discuss the use of the death penalty in the country. Nevertheless, it will be the people's opinion that will play the crucial role in the making of a decision as to whether the death penalty should be abolished. In 1996, a majority of the Belarusians voted for the preservation of the capital punishment in the 1996 national referendum.

13. Santa Claus May Be Sent to Prison in Belarus

On November 13, the Prosecutor's General office issued a warning to a group of 15 human rights advocates and civil society leaders could face criminally liable under Article 193 for their participation in an unregistered organization. The group, dressed as Santa Clauses, handed the Prosecutor's office a

MINSK 00000394 002.6 OF 005

statement, saying that they participate "in an unregistered association of Santa Clauses" and organize "New Year celebrations," distribute "gifts, including among minors," and extend their wishes of "happy New Year at meetings and through media." The advocates have been urging the GOB to abolish Article 193 of Criminal Code which criminalizes any public activity on behalf of an unregistered organization, NGO, or association.

14. Despite Differences, Opposition Parties Seek to Cooperate in Run-Up to Local Elections

The BIB (Belarusian Pro-Independence Bloc) has proposed that United Democratic Forces join them in drawing up a common list of nominees for the April 2010 local elections. United Civic Party Chair Anatol Lyabedzka, also Co-Chair for UDF, said his party is willing to cooperate with BIB, but "it was technically impossible to hold talks with BIB" since that bloc did not yet speak with one voice. Lyabedzka underscored on November 25 the importance of opposition forces cooperating to overcome a shortage of resources and manpower needed to establish a presence in even a handful of electoral districts in the country. Mostly recently the European Coalition has publicly stated it too will look to cooperate with the other blocs. The three opposition coalitions today, December 4, postponed for the third time a meeting between their leaders. A new date has not been set. BIB has called on the coalitions to form a permanent consultative body, and UDF has appealed to the OSCE to send observers to monitor the local elections.

Belarus' Foreign Relations

15. Lukashenko: Defensive, But Sees Signs That U.S.-Belarus Relations Could Improve

In an interview to Italy's La Stampa newspaper on November 29

Lukashenko stated characteristically that a dictatorship in Belarus is impossible, just as it could not occur in Italy or other European countries today. By contrast, he said a dictatorship could be established in larger states, including the US, China or Russia, reasoning that larger countries are more immune from outside pressures, "even if the whole world were to crack down on them." Lukashenko went on to express confidence that relations between the United States and Belarus would significantly improve in the future. While the new administration in Washington has been in place for a relatively short time, he continued, "we do not see any tension building up in our relations. It's a good sign for us."

16. Lukashenka and Berlusconi Optimistic About Bilateral Economic Relations, But the EU Has a Different Opinion

Italian Prime Minister Silvio Berlusconi met with GOB leaders in Minsk on November 30 during a one-day working visit. He met with Lukashenka and took part in delegation-level talks, which resulted in the signing of several technical agreements, including an intergovernmental agreement on economic cooperation. The two sides also signed a memorandum of mutual understanding between the Belarusian government and Italy's industrial group Finmeccanica on cooperation in the fields of transportation, energy, space, security and security systems, and a protocol of exchange of ratification instruments for an agreement on the avoidance of double taxation for income and capital taxes and the prevention of tax evasion. In an interview with Italy's daily La Stampa last week Lukashenka claimed that "major [Italian] businesses are now ready to invest in the Belarusian economy" and promised that the Belarusian government would provide firm investment safety guarantees. During his talks with Berlusconi Lukashenka reportedly announced that the meeting "will give a green light to the implementation of joint projects". Berlusconi responded by promising to further promote bilateral relations and committed himself to bring to Belarus a group of Italian business leaders. He pointed to "huge opportunities" in the proposed Russia-Belarus-Kazakhstan Customs Union. "This will be an enlarged market where we can supply products from our joint ventures," noted Berlusconi. When asked to comment on Silvio Berlusconi's recent visit to Minsk, a spokesperson for the EU high representative for foreign affairs and security policy said that the EU has not changed its stance on Belarus. The Italian prime minister became the first EU leader to visit Belarus in 15

MINSK 00000394 003.6 OF 005

years. While meeting with Alyaksandr Lukashenka in Minsk on November 30, Mr. Berlusconi said, "Your people love you and this is evidenced by the results of the election," a remark that drew criticism from Italian opposition politicians.

Elections

17. Bill Amending Electoral Code Passes First Reading, But Has Not Been Open to Public Scrutiny

According to media reports November 30, Chair of the Central Election Commission (CEC) Lidziya Yarmoshyna, dismissed as "a provocation" opposition calls for international observation of the country's 2010 local elections. She said the CEC is not planning to invite observers to monitor the local elections, pointing out that OSCE's Office for Democratic Institutions and Human Rights (ODIHR) representatives could only come at the invitation of the CEC. However, she recognized that Belarus' relations with the West could be influenced by how the elections are carried out in Belarus. She said the CEC has taken into consideration EU and OCSE proposals on election code reform to the maximum extent possible, and claimed the GOB had even gone beyond the recommendations in some cases. On the same day, the bill amending election regulations passed its first reading in the lower chamber of parliament. The provision stating that observers will be allowed to observe ballot counts from a distance that would enable them to clearly see the process was

removed from the final version, according to Yarmoshyna. The amended bill has not been open to public scrutiny and debate, and despite an undertaking with the OSCE last February to prevent the amended bill for review prior to its adoption, the GOB has not yet presented a copy of the bill to ODIHR.

Economy

18. Russia, Belarus and Kazakhstan Signed Customs Agreements But Barrier-Free Trade is Long Way off

Following the EurAsEC summit in Minsk on November 27, the Russian, Kazakh and Belarusian presidents signed agreements on the introduction of a Single Customs Tariff starting January 1, 2010 and a Single Customs Code starting July 1, 2010. However, the leaders did not agree on the common customs area, which the Belarus side would like to see come into effect as early as July 1 and which, it believes, is necessary for the creation of a fully-fledged Customs Union. The three presidents will reportedly readdress the issue during their meeting in Kazakhstan on December 18. Prime-TASS news agency (Nov 30), citing an anonymous source close to negotiations in Minsk, reported that Russia could agree to a single tariff for the three countries but does not want a common customs area to threaten its domestic producers. During their December 18 meeting, the presidents are expected to discuss the establishment of a common economic zone that, in addition to regular customs union benefits, removes all technical, sanitary, and other non-tariff barriers. Belarus supports progress on a common economic zone, hoping to gain improved access to Russian and Kazakh markets as well as elimination of export tariffs on Belarus-bound Russian crude oil. Belarus also wants Belarus-bound natural gas to be set at Russia's domestic pricing levels. According to Russian First Deputy PM Igor Shuvalov, the issue of oil export duties will be settled in the first half of 2010. Russian President Medvedev told Belarusian journalists on November 22 that in 2010 Russia will charge natural gas prices to Belarus in accordance with existing contracts. Without elaborating, Lukashenka claimed (Dec 1) that Belarus' views on all issues relating to the formation of a customs union have been taken into consideration by the parties involved. Interestingly, on December 2, Russian Energy Minister Sergei Shmatko suggested preserving preferential oil and oil product supplies for Belarus in exchange for a stake in the Belarusian oil infrastructure. Russia, Belarus and Kazakhstan, with a population of 180 million people, account for approximately 83 percent of the economic potential of the former USSR.

19. IMF's Staff-Level Agreement on Third Review Comes Amid Unresolved Concerns

According to media reports, an IMF mission visited Minsk

MINSK 00000394 004.6 OF 005

November 10-19 and reached agreement with the Belarusian authorities, subject to approval by the IMF Executive Board, on completion of the third review of the SBA with Belarus. The third review will be considered by the IMF Executive Board in late December. Upon completion of the review, approximately \$700 million would become available for disbursement. In its November 20 press release the IMF mission noted that "performance under the economic program supported by the SBA has been good. All end-September performance criteria and structural benchmarks were met. The agreement reached on the macroeconomic framework for 2010 will help achieve program objectives." The National Bank Chairman Pyotr Prokopovich registered confidence that the IMF will issue another tranche and relayed those assurances directly to Lukashenka after the mission departed. Serious concerns remain. Belarus' two largest banks, Belarusbank and Belagroprombank, accounting for more than 60% of the country's banking sector, have a liquidity gap of approximately \$6.9 billion. The NBB is urging the GOB to recapitalize these state-owned banks, and although that step is restricted under the SBA agreement, the NBB hopes to

successfully negotiate a recapitalization. Another concern is the extensive system of state subsidized housing loans for the needy. Deputy Prime Minister Viktor Burya admitted on November 25 that the system places stress on the GOB budget as expenditures on servicing concessional home loans will soon equal the entire volume of these loans. Deputy PM Andrei Kabiakou posited on November 13 that the GOB has not yet made a decision whether they will apply for a new IMF Stand-By Arrangement (SBA) program after the current one is completed on April 11, 2010.

110. GOB Optimistic About Economy Prospects in 2010, but at Odds with IMF's Projections

On November 30, the GOB and the National Bank of Belarus (NBB) submitted to the Presidential administration the draft budget and a tentative plan for the country's social and economic development in 2010. According to official projections, Belarusian GDP is expected to grow 11-13 percent, industrial growth numbers are scheduled to reach 10-12 percent; inflation and capital investment are projected at 8-10 percent and 23-25 percent respectively. Deputy Prime Minister Andrei Kobyakov referred to these figures as "a mobilizing forecast", while the NBB Deputy Chairman Nikolai Luzgin called them the basis for the country's monetary policy in 2010. These lofty estimates differ sharply from the IMF's projection of 3-4% GDP for 2010.

111. WB approves \$200-million Development Policy Loan for Belarus, but the EU's \$300M is Now the Focus

The World Bank's (WB) Board of Executive Directors on December 1 approved a \$200-million Development Policy Loan (DPL) for Belarus. It is intended to support the GOB's economic program aimed at addressing the social impact of the economic crisis and advancing structural reforms to help enable a sustained recovery. The \$200 million DPL along with the EU \$300 million MFA will close half of Belarus' \$1 billion 2009 financing gap. However, with the adoption of the Lisbon Treaty has chance the mechanism for releasing the EU \$300M, namely providing for the first time a decision making role for the European Parliament. This has injected some uncertainty to the issue. At minimum, EU sources already acknowledge that the it is unlikely that the funds will be released this year.

112. Seven Businesses Scheduled for Privatization, but Bill is Not Yet Ready

According to November 25 press reports, the Belarusian State Property Committee has drawn up the list of seven open joint-stock companies in which government stakes will be sold in order to meet GOB's commitments to the WB and IMF. Target date for privatization is February 2010. However, the new privatization bill was reportedly sent back to the GOB for revision. The bill was originally expected to be ready for parliamentary hearings by September 30. Speaking about privatization on November 30, Lukashenka explained that state companies would be sold to "those who give more, offer a good investment project and agree to keep workers' jobs". He said the GOB will take company performance into account in privatization decisions. Lukashenka, who reiterated that Belarus, "cannot allow what has happened in many post-socialist countries where companies were sold for nothing, then closed and left thousands of people jobless," will continue to play a

MINSK 00000394 005.6 OF 005

direct role in privatization decisions.

113. Medvedev: 2010 Natural Gas Price for Belarus to Comply With Current Contract

Russian President Medvedev told a group of visiting Belarusian reporters on November 23 that the price of Russian natural gas in 2010 for Belarus will be roughly 30 to 40 percent lower than for "comparable countries." The price will be set in accordance with the existing contract between Russia's Gazprom and Belarus' gas supply company Beltransgaz, which sees Belarus paying

European prices by 2011. He also mentioned that Russia may consider the possibility of building a second leg of the Yamal-Europe gas pipeline via Belarus if contracts for deliveries along this route are concluded. According to information posted by the Russian Embassy in Minsk on November 20, Belarus has thus far been paying an average annual natural gas price of U.S. \$150 per 1,000 cubic meters.

¶14. Access to Government-Subsidized Housing Becomes More Difficult, but the List is Long

In an effort to reduce the waiting list of Belarusians seeking to purchase subsidized housing, Lukashenka issued an order on November 16 to amend regulations governing state assistance to those "in need of better housing conditions." The new edict declares that families who own an apartment with a size of more than 15 square meters per member may not be put on the waiting list for better housing, and families who have already received state assistance from the government are no longer eligible for additional assistance. Over 700,000 names are currently on the waiting list for subsidized housing, out of a population just short of 10 million.

¶15. Tax Ministry: Belarusians Pay Flat-Rate Taxes, but Revenues Stay the Same

Belarus Deputy Tax Minister Larisa Kondratova told the press on November 24 Belarusians began paying taxes more openly in 2009 after the introduction on January 1 of a flat-rate income tax of 12 percent. "Income tax revenues in the budget [however]remained the same after the introduction of the 12 percent uniform income tax," added the official.

Quote of the Week

¶16. Speaking with the visiting delegation of Russia's southeastern Privolzhskiy Federal District on December 3 Lukashenka said:

"We want our older brother, Russia, treat us like a younger brother. Sometimes scold us but never leave, never offend, never bow us down and reproach that we are a weight on Russia's feet." Lukashenka went on saying that "Belarus never turned neither left, nor right, nor towards America, nor turned its back on Russia. We create absolutely no problems to Russia, or to the Baltic states, or to Poland, or to Ukraine, or to the EU, or to America."SCANLAN